UNCLAS SECTION 01 OF 02 ISLAMABAD 000404

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: EAGR ECON PREL PK
SUBJECT: FOOD CRISIS WEATHERED, BUT BOTTLENECKS,
INEFFICIENT GOVERNMENT POLICIES REMAIN

REF: ISLAMABAD 383

¶1. (SBU) Summary. Based on information provided by
Pakistan's Ministry of Food, Agriculture and Livestock
(MinFAL), it now appears evident that the GOP has been able
to avoid a potential food crisis by stepping up wheat
imports. Since December, the GOP has purchased nearly one
million tons of wheat from Black Sea sources, thereby
ameliorating the country's wheat supply shortage. In light
of recent imports and the pending domestic wheat harvest,
Post recommends against an additional wheat donation to
Pakistan under the U.S. Department of Agriculture (USDA) Food
for Progress (FFP) program at this time. Post will continue
to monitor Pakistan's wheat supply situation to determine
whether an FFP donation might become necessary during the
2009/10 consumption year. End Summary

¶2. (SBU) Last summer, the GOP approached USG officials
expressing serious concern about the country's wheat supply
situation and the potential for food shortages prior to the
country's next wheat harvest in April 2008. In response, the
USG made $48 million available in credit guarantees for the
purchase of U.S. wheat (200,000 tons) under the USDA's
GSM-102 program, and donated 50,000 tons of wheat under the
USDA's FFP program. The USG also gave serious consideration
to approving an additional FFP donation of 800,000 tons of
wheat.

¶3. (SBU) The GOP had earlier estimated Pakistan's marketing
year (MY - May through April) 2008/09 wheat import needs at
3.5 million tons. However, taking into account the nearly
one million tons of Black Sea wheat purchased since December
2008, largely facilitated by lower world wheat prices and GOP
receipt of the multi billion dollar first tranche of its IMF
loan, Post now estimates Pakistan's MY 2008/09 wheat imports
at three million tons (2.75 million tons purchased by the
government, and 250,000 tons of private sector imports), or
about 14 percent lower than the GOP's earlier projections.
Due to timing considerations, however, it is unlikely that
the GOP will utilize the USDA's GSM-102 program any time
soon, as the wheat harvest will be in full swing prior to the
potential arrival of any U.S. wheat.

¶4. (SBU) In MY 2008/09, the GOP purchased a total 6.65
million tons of wheat (3.90 million from the domestic crop
and 2.75 million tons from international markets). As of
February 10, they had disbursed 5.15 million tons of wheat to
the provinces and flour mills, leaving a balance of about 1.5

million tons of wheat to meet domestic demand through the end of April. (Note: Off-take from government stocks is estimated at between 500,000 and 700,000 tons per month. End Note). Hence, it now appears that the government will have barely sufficient stocks to meet their near-term wheat consumption needs until the new crop is harvested beginning in late March. The government will rebuild stocks through the purchase of new crop wheat from the domestic harvest.

¶5. (SBU) An informal survey done by Embassy and constituent posts in February confirms indications that the feared wheat crisis has failed to materialize. There are no widespread wheat or flour shortages. The overall quality of available flour appears to have dropped, perhaps a reflection of the poorer quality red wheat imported from Russia, and in some places the price differential between government stores and the private market has widened. The only areas where major shortages have been reported have been in upper Sindh, however. Even in Peshawar, where it had been rumored that there were shortages, supply appears to be plentiful.

¶6. (SBU) Comment: As reported reftel, the GOP's involvement in commodity markets is not particularly efficient and can have unintended negative consequences. Although its response to the potential food crisis was commendable (if somewhat tainted by suspected kickbacks associated with the Black Sea wheat purchases), the GOP's ability to anticipate the market is not infallible. Last year's GOP-set prices were below market, causing hoarding and smuggling by farmers, while this year's are above market, greatly increasing the cost to the GOP and potentially

ISLAMABAD 00000404 002 OF 002

advantaging large-scale land owners at the expense of small farmers. Policy reform of the agricultural sector is urgently needed, and USAID's new program in the agricultural sector is addressing some of these concerns.

¶7. (SBU) If not for the availability of cheap Black Sea wheat and IMF money, however, the GOP would have found itself in a very precarious situation, and it appears doubtful that the USG could have provided assistance in a timely fashion had a food crisis emerged. Although Post no longer recommends an additional FFP donation for Pakistan at this time, an inter-agency review of the proposal could prove a valuable exercise in assessing the preparedness of the USG to respond to a pending food crisis here. Food security is of paramount importance to both the government and people of Pakistan. It is estimated that of the 56 million people living in Pakistan's urban areas, about 21 are food-insecure. As the USG prepares to match resources to the challenges posed in the part of the world, Post strongly recommends that the issue of food security be afforded due consideration. This episode also demonstrates the efficacy of balance of payments assistance, as foreign exchange inflows allowed the GOP to meet critical fuel needs as well as to import wheat.
FEIERSTEIN